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## Recent Economic trends in the Asia-Pacific Region

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## Recent Economic trends in the Asia-Pacific Region

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# FOREWORD

The 36th edition of THE FAR EAST AND AUSTRALASIA encompasses another year of important events in the region. As the volume went to press in October 2004, King Sihanouk of Cambodia abdicated and was succeeded by his son, Prince Norodom Sihamoni. The Prime Minister of Myanmar, Gén. Khin Nyunt, was dismissed and reportedly placed under house arrest. At legislative elections in Australia, also in October, Prime Minister John Howard was returned to office for a fourth consecutive term. The Philippine electorate voted to return President Gloria Macapagal Arroyo to office at the elections of May. In Indonesia, however, the country's first direct presidential election resulted in the replacement in October of President Megawati Sukarnoputri by Susilo Bambang Yudhoyono. Controversy surrounded the re-election of Taiwanese President Chen Shui-bian in March, compounded by the repercussions of a dramatic shooting incident in which both Chen and his Vice-President had been injured. Following legislative elections in French Polynesia in May, the pro-independence Oscar Temaru replaced the long-standing conservative Gaston Flosse as President, only to be removed from office four months later in a highly controversial motion of censure. During 2004 legislative elections were also held in Hong Kong, Japan, the Republic of Korea, Malaysia, Mongolia, the Cook Islands, Nauru, New Caledonia and Vanuatu.

A calendar of the key political events between November 2003 and October 2004 provides a convenient reference guide to the developments of the last 12 months. Specially commissioned introductory articles on human rights, on population and development issues, on Asian environmental issues, on recent economic trends and on security issues examine subjects of particular relevance to the Asia-Pacific region. A newly commissioned essay on the environmental issues of the Pacific Islands surveys in detail the particular problems of that region. All essays are updated annually by specialist authors and researchers. The statistical surveys, directories and bibliographies have also been extensively revised. Detailed coverage of international organizations and their recent activities in the Far East and Australasia is provided, along with a directory of research institutes and a general bibliography. Information on the region's major commodities, including a new section on cocoa, is also incorporated.

The editors are once again grateful to all the contributors for their articles and advice and to the numerous governments and organizations that have provided statistical and other information.

October 2004

## ACKNOWLEDGEMENTS

The editors gratefully acknowledge the co-operation, interest and advice of all the authors who have contributed to this volume. We are also greatly indebted to innumerable organizations connected with the Asia-Pacific region, especially the national statistical and information offices, whose valued co-operation in providing information is greatly appreciated.

We are particularly grateful for the use of material from the following sources: the UN's *Statistical Yearbook*, *Statistical Yearbook for Asia and the Pacific*, *Demographic Yearbook*, *Industrial Commodity Statistics Yearbook*, *National Accounts Statistics* and *International Trade Statistics Yearbook*; the UNESCO *Statistical Yearbook*; FAO's statistical database; the ILO's statistical database and *Yearbook of Labour Statistics*; the IMF's statistical database, *Government Finance Statistics Yearbook* and monthly *International Financial Statistics*; the World Bank's *World Bank Atlas*, *Global Development Finance*, *World Development Report* and *World Development Indicators*; the World Tourism Organization's *Yearbook of Tourism Statistics*; and the Asian Development Bank's *Asian Development Outlook* and *Key Indicators of Developing Asian and Pacific Countries*. We are also grateful to the International Institute for Strategic Studies, Arundel House, 13–15 Arundel Street, London, WC2R 3DX, United Kingdom, for the use of defence statistics from *The Military Balance 2003–2004*.

The following publications have been of special value in providing regular coverage of the affairs of the Asian and Pacific region: *The Far Eastern Economic Review*, Hong Kong; *IMF Survey*, Washington, DC, USA; and *Keesing's Record of World Events*, Cambridge, United Kingdom.

## HEALTH AND WELFARE STATISTICS: SOURCES AND DEFINITIONS

**Total fertility rate** Source: WHO, *The World Health Report* (2003). The number of children that would be born per woman, assuming no female mortality at child-bearing ages and the age-specific fertility rates of a specified country and reference period.

**Under-5 mortality rate** Source: UNICEF, *The State of the World's Children* (2004). The ratio of registered deaths of children under 5 years to the total number of registered live births over the same period.

**HIV/AIDS** Source: UNAIDS. Estimated percentage of adults aged 15 to 49 years living with HIV/AIDS. < indicates 'fewer than'.

**Health expenditure** Source: WHO, *The World Health Report* (2003).

*US \$ per head (PPP)*

International dollar estimates, derived by dividing local currency units by an estimate of their purchasing-power parity (PPP) compared with the US dollar. PPPs are the rates of currency conversion that equalize the purchasing power of different currencies by eliminating the differences in price levels between countries.

*% of GDP*

GDP levels for OECD countries follow the most recent UN System of National Accounts. For non-OECD countries a value was estimated by utilizing existing UN, IMF and World Bank data.

*Public expenditure*

Government health-related outlays plus expenditure by social schemes compulsorily affiliated with a sizeable share of the population, and extrabudgetary funds allocated to health services. Figures include grants or loans provided by international agencies, other national authorities, and sometimes commercial banks.

**Access to water and sanitation** Source: WHO, *Global Water Supply and Sanitation Assessment* (2000 Report). Defined in terms of the type of technology and levels of service afforded. For water, this includes house connections, public standpipes, boreholes with handpumps, protected dug wells, protected spring and rainwater collection; allowance is also made for other locally defined technologies. 'Access' is broadly defined as the availability of at least 20 litres per person per day from a source within 1 km of the user's dwelling. Sanitation is defined to include connection to a sewer or septic tank system, pour-flush latrine, simple pit or ventilated improved pit latrine, again with allowance for acceptable local technologies. Access to water and sanitation does not imply that the level of service or quality of water is 'adequate' or 'safe'.

**Human Development Index (HDI)** Source: UNDP, *Human Development Report* (2004). A summary of human development measured by three basic dimensions: prospects for a long and healthy life, measured by life expectancy at birth; knowledge, measured by adult literacy rate (two-thirds' weight) and the combined gross enrolment ratio in primary, secondary and tertiary education (one-third weight); and standard of living, measured by GDP per head (PPP US \$). The index value obtained lies between zero and one. A value above 0.8 indicates high human development, between 0.5 and 0.8 medium human development, and below 0.5 low human development. Countries with insufficient data were excluded from the HDI. In total, 177 countries were ranked for 2001.

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# RECENT ECONOMIC TRENDS IN THE ASIA-PACIFIC REGION

TRAN VAN HOA

In the years leading to 2005 the major countries of the Asia-Pacific region have experienced significant economic trends and unexpected events. These deeply reflected a number of serious problems and issues that the countries had not encountered nor had to address in their recent history of economic development and growth and in their international relations. A major issue was the continuing effect of the 1997 Asian economic and financial crisis, with severely damaging regional repercussions and 'contagion' beyond Asia. These countries witnessed the sudden decline of high-technology industry around the globe, which adversely affected their important export trade in, and income from, manufactured products. There was a perceived global economic deceleration, owing to reduced demand in the US market, the stagnant state of the economies of the European Union (EU) and the seemingly insoluble paralysis of the Japanese economy, the world's second largest. Moreover, the terrorist attacks of 11 September 2001 in the USA, the bombing incidents in the popular tourist resort of Bali in Indonesia on 12 October 2002 and the Madrid bombings of 11 March 2004 seemed to have exacerbated this economic deceleration. From early 2003 the Asia-Pacific countries were further troubled by the US-led coalition's military campaign to remove the regime of Saddam Hussain from Iraq and by the subsequent problems; they were also concerned by the possibility of similar attacks on 'rogue' states in the Middle East and East Asia. Furthermore, only a few weeks after the start of the conflict in Iraq, the outbreak of Severe Acute Respiratory Syndrome (SARS), a pneumonia-like illness, affected thousands of people in more than 30 countries around the world but was most serious in Canada, the People's Republic of China, Hong Kong, Singapore, Taiwan, the Philippines and Viet Nam. In early 2004 and again in 2005 some of these countries, and even the USA, were affected by an outbreak of avian influenza ('bird flu'), which had equally damaging consequences for their sectoral economic activities.

In addition, the Association of South East Asian Nations (ASEAN) was reassessing its invitation to Australia and New Zealand to join long-awaited free-trade talks; and on 1 May 2004 a new regionalism resulted from the enlargement of the EU from 15 to 25 members, thus boosting and protecting Europe's trade and growth. Significantly, on 26 December 2004, the world's most powerful earthquake in more than 40 years struck deep under the Indian Ocean, creating a series of massive tsunamis that destroyed cities, coastal communities and holiday resorts, and killed hundreds of thousands of people in about a dozen countries in South-East Asia, the Indian sub-continent and Africa. In 2005, furthermore, unprecedented oil price rises brought about ostensibly by increased demands from the USA, China and India, gave rise to some pessimism about development and growth prospects worldwide. This essay is an attempt to survey recent economic developments and trends in the major Asia-Pacific countries against a background of regional economic set-backs, management difficulties, persistent global slowdown, financial volatility and uncertainty, amid some good signs of recovery and better economic and trade relations in the region. Some discussion on the region's challenges, opportunities and prospects in the medium and long term, however, is also given.

## RECENT DEVELOPMENTS

### Period prior to the 1997 Asian Crisis

After more than two decades of 'miracle' rapid development and the robust growth that gave rise to what is known as the 'Asian (or East Asian) Economic Development Model' (AEDM), adopted and emulated by other developing and developed countries alike in the relevant contemporary literature, the major countries of

the Asia-Pacific region (including Oceania but excluding the subcontinent) experienced, early in 2003, a number of difficulties that were likely to have a profound short- and medium-term impact on their economic growth and development, trade and investment, and also on international economic relations.

During the 10-year period 1988-97, for example, the newly industrialized economies (NIEs) in Asia together recorded an extraordinary average annual growth rate of 7.12% and the countries of developing Asia a rate of 7.94%, while all advanced economies combined and the EU attained only 2.91% and 2.31% respectively. According to the IMF, during the same period Australia and New Zealand achieved respective growth rates of only 3.23% and 2.29%. While many arguments have been put forward by economic and business analysts to explain these achievements in Asia, the main reasons seem to be the 'open door policy' introduced in China in 1978, government and labour reform, industrial restructuring and, most importantly, capital inflows and policy to attract and retain these funds. Some observers have preferred to group all these together in the form of an AEDM, but this position has been challenged by others as an overstatement of facts or policies that were often sequential in time but irregular in systemic policy formulation. Not all the gains above, however, were achieved without difficulty. The average annual inflation rates of the advanced economies and of the EU during the period were only 3.43% and 3.78% respectively, but those of the NIEs and developing Asia were 5.38% and 10.76% respectively. With their relatively low growth levels, Australia and New Zealand recorded inflation rates of 3.48% and 2.34% respectively. In addition, during this period, total debt outstanding and service interest and amortization reached US \$451,550m. and \$53,940m. respectively for developing Asia but only \$526,170m. and \$85,470m. for all Western hemisphere economies, according to the IMF. Furthermore, during the time of high development and growth, welfare improvement and political stability, along with social harmony and religious tolerance, appeared generally to prevail in the countries of the Asia-Pacific region.

### The Aftermath of the 1997 Asian Crisis

All the above achievements of the Asia-Pacific economies seemed to dissipate in mid-1997 when Thailand suffered a massive capital outflow that resulted in the collapse of its exchange rate and currency, followed by the failure of its banking and financial systems and an end to the long-standing economic development and growth. The crisis swiftly spread to other economies in the immediate region, such as those of Indonesia, Malaysia and the Philippines, and also to North-East Asia, affecting Hong Kong and the Republic of Korea (South Korea). In 1998, therefore, the countries of the Asian NIEs recorded a contraction of 2.4%, compared with a growth rate of 5.8% in 1997. Developing Asia similarly achieved growth of only 4.0% in 1998, compared with 6.6% in the previous year. Overall, during 1998-2003 Asian NIEs reached an average annual growth rate of only 3.9%, while developing Asia attained 5.9%. Inflationary pressure in Asia-Pacific economies was reduced in the post-crisis period, however, with an average annual inflation rate of 1.7% being recorded in the Asian NIEs and 3.2% in developing Asia. During this period Australia and New Zealand experienced relatively low average annual growth rates, of 3.7% and 2.8% respectively, and low inflation rates, of 2.8% and 2.1% respectively. Total debt outstanding and service interest and amortization, which were needed to implement nationally and internationally inspired policies to rescue crisis economies, increased in developing Asia, reaching US \$704,200m. and \$103,300m. respectively in 2003, or an average of \$69,000m. and \$99,030m. during 1998-2003. Net private capital flows to developing Asia, providing the necessary momentum for development

and growth, were as high as \$123,200m. in 1996, but the countries then suffered massive outflows and such funds subsequently declined in the post-crisis period (to \$44,900m. in 1998, for example) and mustered only \$18,400m. in 2003, thus yielding an annual average of \$7,750m. during 1998–2003, according to the IMF. In the first quarter of 2005, amid the ongoing problems in Iraq (even after the country's successful election), the avian flu outbreaks, the Spanish train bombings, the continuing and growing terrorist threat posed by al-Qa'ida, the emerging geopolitical risks (for example, the confrontation between China and Taiwan; and North Korea's nuclear ambitions) and increasing oil prices, there were also signs of a weakening in the Asian economies. This had already been most pronounced in 2004, and was also evident globally. Within Asia, real GDP growth was predicted to reach 7.4% in 2005 and 7.1% in 2006 for developing states, 8.5% and 8.0% respectively for China, 6.7% and 6.4% for India, and 5.6% and 5.9% for developing Asia, excluding China and India. For these same countries (according to the IMF in 2005), inflationary pressure was expected to ease slightly in 2005 and 2006 respectively to 3.9% and 3.4% in the developing states, 3.0% and 2.5% in China, 4.0% and 3.6% in India and 6.0% and 5.2% for developing Asia, again excluding China and India. In comparison, advanced countries were expected to record a modest growth rate of 2.6% in 2005 and 3.0% in 2006 (in contrast to 2.0% and 3.4% in 2003 and 2004 respectively).

#### THE LONG-TERM IMPACT OF THE ASIAN CRISIS

The long-term impact of the Asian crisis has been serious, but its effects have varied in causal direction and intensity in the major countries of the Asia-Pacific region. More specifically, while all aspects of the Asian economies (except that of Japan, which had experienced a paralysis in its economic activities and performance over a decade or so) have apparently been severely affected by the crisis, other countries in the region, such as Australia and New Zealand, or some major Asian transition economies, such as Cambodia, China, Laos, Myanmar and Viet Nam, seem to have avoided being damaged by the turmoil, at least as far as their growth and trade were concerned. The impact on Australia and New Zealand and on the transition economies of Asia can be assessed from other economic perspectives such as external debts, current accounts and unemployment rates. Overall for developing Asia, the impact as measured by the critical ratio of average post-crisis over pre-crisis growth rates ranges from 7% for Indonesia, 19% for Thailand, 30% for Malaysia, 66% for Viet Nam, 78% for China, 84% for the Philippines, 95% for Laos and to 98% for Cambodia, according to IMF estimates. For advanced Asia, between the 1988–97 and 1998–2001 periods Taiwan suffered a decline in growth of 51%, Hong Kong 59%, and Singapore 64%. Surprisingly, Myanmar, a so-called authoritarian and repressive state in South-East Asia, recorded an apparently impressive ratio of 238%, but the growth rate subsequently declined. In early 2004 available indicators showed that a recovery for ASEAN + 4 (notably Indonesia, Malaysia, Philippines and Thailand) and even the Asian NIEs that were the most badly affected by the Asian crisis had taken place with, according to the IMF, a predicted growth rate of up to 77% between 2003 and 2004 for Asian NIEs.

#### Economic Effects

The sudden emergence of the crisis of July 1997 in Thailand had a huge economic and financial impact on that country and on other countries in the neighbouring and North-East Asian region. This crisis curbed the decades-long growth pattern of the once 'miracle' economies of Asia and arguably took them from 'being a miracle to needing one'. What caused the crisis to emerge in the first place and to spread subsequently has occupied the minds of economists in Asia and beyond since the late 1990s. Many national and international studies have, as a result, been carried out in an attempt to reach appropriate diagnosis and subsequent suitable prescriptions. The hypotheses put forward in such studies include China's 1994 currency devaluation, Japan's monetary policy of interest rate increases in the mid-1990s in an effort to revitalize its perennially ailing economy, serious nepotism and cronyism in parts of Asia, corruption in the governance of both corporate and government institutions, an alleged international conspiracy to transfer

superannuation funds so as to damage national economies in Asia, a lack of transparency in financial management and reporting at the corporate and government level, and, finally, an absence of national and international (for example, the IMF) regulatory controls over international capital inflows and outflows. The consensus now is that massive capital outflows from Thailand, for whatever reasons, created the financial crisis in that country that resulted in a large number of banks and financial institutions finding themselves unable to meet obligations and commitments. The Thai Government, therefore, had no option but to assume responsibility in the midst of the turmoil. These banks and institutions were subsequently shut down, and massive redundancies in all related industries in the country quickly followed. The government budget deficit rose sharply, and advice and emergency loans were urgently sought from the IMF.

#### Trade and Development Effects

The sudden and substantial devaluation of the currencies of crisis economies in the Asia-Pacific region was initiated as the first line of defence against capital outflows. This was supposed to achieve its aim by expanding exports and export income and thus improving the balance account. However, in the case of some crisis economies, such as Thailand, exports were already beginning to stagnate several years before 1997. The devaluation did not seem to have any significant impact on restricting capital outflows or on increasing capital inflows. The same phenomenon was also observed in other crisis economies in Asia, such as Indonesia, Malaysia, the Philippines, Hong Kong and the Republic of Korea. Since the main impetus of development and growth in the Asia-Pacific region in the past 30 years or so had been provided by capital inflows, along with technology or the transfer of expertise, a substantial decline in these inflows from 1997 damaged the volume and intensity of development and growth. In one member country of ASEAN, namely Viet Nam, for example, an amount of \$40,000m. in foreign direct investment was regarded, after the 1997 crisis, as necessary to support and sustain the country's high average annual growth rate of 7.83% achieved during the pre-crisis period of 1988–97. In 1998, however, Viet Nam experienced a decline of more than 50% in this required level of foreign direct investment and, according to the IMF, the country's rate of growth was reduced to only 3.5% in that year.

#### Social and Political Effects

An early contribution to the analysis of the Asian turmoil was made in 1998 by two Australian observers, Ross McLeod and Ross Garnaut, in which case studies of 12 Asian economies and related experience from the past (for example, Mexico), as well as the regulatory and prudential functions of various international organizations in crisis management, were investigated. A close examination of the social impact of the crisis, however, was not attempted to any meaningful extent in this work. A more recent detailed analysis was given by Tran Van Hoa in 2000. In this study, the collapse of the banking and financial systems in crisis economies and subsequent redundancies in the Asia-Pacific region were seen as having resulted in massive unemployment and a higher incidence of poverty. A figure of 200m. more people made poor (not poorer) in these economies has been calculated and put forward by various individual economists and international organizations, such as the Asian Development Bank (ADB). Here, the minimum reference standard of poverty was less than one US dollar per day. Unemployment then led to a diversion of education resources, affecting the skills and training of the population for the future (a concern even for the developed countries of Asia such as Singapore) and child labour exploitation or abuses affecting family harmony and stability (especially in Indonesia and Thailand). In Thailand, the crisis had resulted in a change of government. In Indonesia, urban and regional riots, as well as sectarian and religious conflict, occurred. In the Philippines, a consequence of the Asian economic turmoil was a criminal indictment at the highest level of government. In the Republic of Korea, the whole structure of the *chaebol* (large corporations), which for many decades had served as a model of corporate success and growth (in a manner similar to the conglomerates of Japan), was deemed largely responsible for the decline in exports and in growth and was totally reformed.

## ECONOMIC CRISIS MANAGEMENT

## International Rescue Programmes and Their Effectiveness

While the damaging impact of the benchmark event, the Asian crisis, has been assessed as severe in the economic, financial, social, political and religious context in crisis economies, its causes have not been correctly or appropriately diagnosed either for the whole region or country-by-country, according to many economic analysts. This apparent lack of insight or understanding on the part of the IMF of the causes of the crisis in Asian economies has given rise to heated debates on the suitability of so-called rescue prescriptions and policies imposed by the IMF as necessary conditionality for securing IMF rescue loans.

One study in 2002 addressed in detail the economic and financial crises and crisis management in a number of major NIEs and developing and transition countries alike in the Asian region. It presented assessments by well-known experts, knowledgeable in the countries under study, on the outcomes of this management as implemented by governments and monetary authorities in the crisis economies. A general evaluation of these outcomes indicates that economic and financial management policies, strongly recommended by international organizations and agencies and adopted voluntarily or involuntarily by crisis countries, have not been effective in crisis management and resolution. The obvious evidence was that, in 2005, eight years after the emergence of the Asian crisis, its impact was still causing havoc at all levels of activity in the crisis countries, with economic, financial, political and social repercussions. The study also discussed plausible and more effective alternative policies for similar crisis issues, and analysed aspects of crisis management that would achieve better short-term and long-term resolutions in any similar future economic turmoil. The relevance of the discussion and analysis to economic and financial crises and management in other regions (such as Latin America) in the early 1990s is straightforward.

## Search for a New Crisis-Management Model

A general assessment of the outcomes of economic crisis management in the relevant Asian economies in recent years has been that, on a conceptual level, the simple one-instrument policy of the Keynesian theory (demand management or fiscal expansion and contraction or international loans) or monetarist (money supply or interest rate manipulation) has been inappropriate in dealing with what had emerged as immense issues of diverse economic, regional, political, cultural and social complexity in the Asia-Pacific region.

Among the alternative and more appropriate multi-instrument policies was a macro-economic mix theory first proposed in the mid-1980s and, more importantly, its adoption in conjunction with a deep understanding or knowledge about the long-term and fundamental situation and social fabric of the troubled economies under consideration. An example of the importance of local social factors in crisis management is the underestimation by international organizations of the effect of the removal of price subsidies (resulting from a budget deficit reduction policy) from energy commodities in Indonesia during the height of its economic crisis. The ensuing hardship and unrest caused a delay in the country's major economic and administrative reform programme. Another example is the misdirected focus (or blame) on the public sector in Thailand for having started the initial Asian turmoil (resulting in severe budget reductions and massive unemployment). Later analysis showed that the real cause of the crisis was the uncontrolled and rapid increase in unrestrained lending and borrowings in the private sector itself a year or so prior to 1997.

It is unfortunate that the issue of proper economic crisis management for countries in difficulty in Asia has been recently regarded as obsolescent by a number of influential countries in the world; as a result, less attention and fewer resources have been allocated to finding proper prescriptions. This may have explained why the impact of the crisis was still persisting in the region more than eight years later. There are three reasons for this neglect. First, official reports and assessments by international organizations and agencies seemed to indicate that the impact of the Asian turmoil on the non-Asian economies had

been benign. Second, the complexity of crisis management in the once 'miracle' economies of the Asia-Pacific region has been so immense that it has rendered external remedial contributions less effective and immediate. Third, the underlying orthodoxy of crisis-management policies prescribed for crisis economies has been inappropriate both in the short term and in the long term.

The prospects for the Asian economies (including Japan) were rather more dismal and demanded a serious reconsideration of national policy options. The assessment was based on these economies' historical economic and international trade trends and projections and also on new developments in the region and in the US economy in early 2001. The strong persistent effect of the Asian turmoil was found upon deeper analysis to depend crucially on the fundamental situation of crisis economies. This included aspects of economic, political, social, religious, historical and regional and international relations that had both short-term and long-term implications.

The prospects for proper economic crisis management were regarded as slight unless crisis economies in Asia (or even elsewhere) and international organizations took note of the inadequacy or unsuitability of the orthodox policies adopted (which might have been very useful during the Great Depression of the 1930s or, according to the IMF's assessment, to Mexico in the early 1990s, but which might be second or third best in late 2000 or early 2004, for example, in Asia). The prospects would also be slight unless other local and national dimensions of the management were taken into account in designing and implementing economic crisis management.

## ASIA'S RECOVERY

## Signs of Revival

In the first half of 2000 there were signs that the Asian recovery had started. This could be seen from a number of general aspects, as judged from various reports and published statistics by the national and international organizations involved in the crisis analysis and in management advice. First, any further impact of the crisis in the Asian region had reportedly been halted. Second, emergency loans earmarked by such institutions as the IMF as financial assistance for some crisis economies had been repaid or not even used, owing to improvements in the countries' budgetary situations. Third, growth, along with various economic activities and especially exports, in most of the crisis economies in Asia had resumed, albeit at a hesitant pace and at a much lower rate than that attained by these economies in the 30 years or so before July 1997. From other relevant perspectives (for example, the social and political situations or even a closer examination of economic and financial activities at the sectoral level in detail), however, it would be rather premature to state that the countries affected by the Asian crisis have completely left the turmoil behind and to predict that the repercussions of the crisis will not remain in the months or years to come. There were many reasons for this assessment.

First, at the regional level, the Bank for International Settlements (BIS)—which was established in the 1930s to promote co-operation among the major central banks around the world, reported in July 2000 that, in the first three months of that year, international bank lending to Asia had decreased by 2%, as companies repaid foreign debt and as demand for new bank loans remained weak. In fact, lending to Asia declined by \$6,000m. in this quarter to \$297,000m., with \$1,600m. coming from bank loan repayments. Since foreign bank loans have been a main source of finance to support development, growth and technology transfer in the Asia-Pacific region, a shortage of this funding in the region would not bode well for its prospects in expanding trade, improving living standards, enhancing national and individual welfare, and participating in international economic integration and globalization. Second, at the national level, the huge costs (estimated to be about US \$1,000m. for the part played by Australia alone) of restoring and maintaining peace in and reconstructing Timor-Leste (formerly East Timor) after the ethnic, religious and racial conflict there in 1999 were seen as a new and additional financial burden on the countries of the region at a time (the post-crisis period) when they were least able to afford it. Timor-Leste was not the only problem affecting a full economic recovery by the crisis countries in Asia in 2000.

In 2004 the World Bank assessed the global growth rate for 2003 at 2.0%. Thus, for the third consecutive year the world economy was growing at a level well below its potential, owing to international events that had undermined confidence, such as the build-up to the Iraq conflict and subsequent developments, trans-Atlantic trade tensions and concerns about SARS. In early 2005 the World Bank projected a growth rate of 6.0% for the year for the economies of East Asia (including tsunami-affected countries such as Indonesia and Thailand), compared with the rate of 7.2% predicted a year earlier. This downward revision was due to the reduced pace of global expansion, slowing growth in China, higher oil prices and large dollar inflows to the region. This rate represented a reduction from the cyclical peak of 2004 but was expected to be more sustainable, with balanced contributions from exports, consumer expenditure and investment.

#### Volatility of Recovery Prospects in the Asia-Pacific Region

In 2001 the Asian crisis economies were still individually beset with problems that had the potential seriously to hinder their recoveries. Indonesia remained a country deeply embroiled in religious and ethnic rioting, violent and widespread unrest arising from independence movements, general mistrust of the Government, power struggles among major political parties and continuing corruption. As an example, in mid-2000 the Indonesian Government's Supreme Audit Agency reported that the country was facing \$16,000m. in potential losses, owing to the misuse of emergency loans and financial abuses, and that this involved Bank Indonesia officials and several prominent business groups.

Malaysia in the early 2000s was still affected by internal political turmoil and allegations of cronyism, in addition to a severe shortage of skilled labour for its information-technology (IT)-based economic development plan. In the Republic of Korea, the restructuring of the banking and financial system and of the *chaebol* (the main targets for the country's reform programme during the crisis) has not been regarded by international economists as very successful.

The Philippines continued to be troubled by slow growth and by the emergence of zealous Islamist militants and separatists, who have resorted to violence and the kidnapping of foreign tourists to support their causes. Even Viet Nam, which after many years of negotiations signed an historic trade agreement with the USA in July 2000, continued to be negatively affected by the Asian turmoil and remained uneasy with free-market reforms. The country was quite apprehensive about the possible adverse consequences of this trade agreement and the perceived high costs and uncertain benefits (economic and social) of its accession to the World Trade Organization (WTO) in the near future. China, while being admitted to the WTO in 2001, still faced local and national problems in implementing the organization's numerous conditions and requirements.

In late 1999 Thailand was regarded, in the reports prepared by staff of the international organizations, as a country with fairly successful economic and financial reforms and in which the longer-term impact of the Asian crisis was relatively benign. However, this reported perception (and that of similar reports and assessments for other crisis countries in the Asia-Pacific region) was seen by economic and financial experts in Thailand and overseas as having been superficially investigated, inappropriately analysed and dangerously misleading. In a country with at least 80% of its population living and working in the traditional centuries-old way in the rural areas, the impact of a major modern economic or financial crisis on the country was necessarily centred on the city/urban population. As a result, the weighted average impact on both the city/urban and rural populations of that country must be regarded as negligible. The harsh facts were that Thai business people and their relatives still continued to commit suicide, even publicly, as a result of the hardships and problems brought about by the Asian crisis. Meanwhile, strong growth in some sectors of the economy (such as exports), without equally strong transmissions of the benefits to other major sectors, was regarded as insufficient to rescue the economy from depression or stagnation and to lead it to a full recovery.

Coupled with the current global conditions discussed earlier, economic development and recovery in the Asia-Pacific (but

excluding China) in early 2005 were conditional upon a number of uncertain factors—local, regional and international. Local uncertain conditions included the recent violent clashes and fatalities between government security forces and Muslim rebels in the Songkha province of southern Thailand and the more assertive direction Malaysia might take after the change of its long-standing leadership. Regional factors included the political turmoil in the Republic of Korea, the terrorist bombings in the Philippines, the outbreak of avian flu in Asia and North America, the re-emergence of SARS in the Chinese capital of Beijing and the Indian Ocean tsunami disaster of December 2004, which affected the provinces of Aceh in Indonesia and Phuket in Thailand particularly badly. Even the recent strong growth in China, which has boosted development and growth in the Asia-Pacific region as a whole and beyond, has also tended to 'overheat' the economy, with a damaging domestic, regional and global impact on resources and inflation. There were, as a result, regional and global calls for China to curb its development and growth in order to effect an economic 'cooling down' through government directives on bank lending before the May 2004 holiday and in policies to halt investment in 'hot' areas such as steel, cement and property development. Globally, the continuing difficulties in Iraq, the spreading of terrorist attacks to Muslim countries in the Middle East and Asia, the economic deceleration of both Europe and Japan, the unprecedented oil price rises of 2005, the disagreement (by 25 to 166 members) between developed and developing countries at the UN on the organization's reform plans giving priority to security over development, along with the rising tensions related to Second World War issues between China, Japan and Taiwan, all contribute to a significant extent to the volatility and uncertainty in the economic recovery of the Asia-Pacific region in the near future.

The above observations for some major countries in the Asia-Pacific region and in a global context seem to indicate that, despite the good signs of an improvement in various economic and financial activities, as reported or expected by national and international organizations, by 2005 a full recovery in the major economies affected by the crisis had yet to emerge.

## CHALLENGES AND PROSPECTS

### Economic Recovery and the USA, Japan, the EU and Global Turmoil

The role played by the USA and Japan (the latter remaining the second largest economy in the world after the USA) in the Asian crisis and in the economic recovery in major crisis countries should not be underestimated. In the early 2000s the US economy, the main market for the Asia-Pacific countries' exports, remained beset by weak demand, slow growth and enormous corporate scandals. Repeated interest rate reductions during this period seemed ineffective in stimulating the US economy. It was recognized that, while Japan's often generous foreign aid was important as an interim measure to help Asian development, the region's recovery crucially depended on the Japanese economy, especially with regard to Japan's fiscal and monetary policy. In mid-2000, however, the Governor of the Bank of Japan, Masaru Hayami, stipulated that the country's emergency fiscal and monetary policy measures, which included an interest rate policy of 0%, might have to be adjusted as soon as possible to the normal positive level. The effect of such a shift in policy might result in depressed private demand and therefore reduced growth, not only in Japan but also in the neighbouring countries of the Asia-Pacific region and beyond. Even in Japan, the then Director-General of what was the country's Economic Planning Agency, Taichi Sakaiya, and a number of cabinet ministers had urged caution in this policy shift, since it was too early to be optimistic about the Government's efforts to allow private demand to supersede government spending as the impetus of economic growth. At May 2003 Japan's most senior financial official, Heizo Takenaka, planned to use public funds to boost capital holdings at the nation's still debt-ridden banks, as their bad loans and subsequent decreases in lending to small and medium-size enterprises again curbed growth.

The deceleration in the world's two largest economies, namely the USA and Japan, as observed in early 2001 and again in 2003, would demand that crisis management in troubled econo-

mies needs effective, resilient and long-term resolutions. It also should have plausibility and minimal conditionality. Owing to the great effect a crisis can have on the poor (an increase in poverty incidence) and disadvantaged and vulnerable (social and welfare deterioration) of the population, especially in developing and transition economies in the Asia-Pacific region (where 'safety net' and social security systems are not yet well developed or even seriously considered by many governments), a proper crisis management policy should also impart an aspect of urgency to all national governments and international organizations responsible for highly effective crisis resolution.

During 2003 an international assessment of the EU gave a bleak review of the organization's institutions and structural reform and its impact on growth prospects and on the global and the Asian economy. The problems cited by the IMF included generous unemployment compensation, central wage bargaining processes, strict employment protection (for example, substantial dismissal costs) and high taxation of labour income, all of which contributed to regional unemployment rates far higher than those recorded in the USA. Lack of labour market competitiveness in the EU was claimed to be responsible for a 3% increase in its unemployment rate, and lack of product market competitiveness for a 5% reduction in its consumption and investment over the medium term. Since countries in the Asia-Pacific region have had strong trade links with the EU (second only to those with the USA), their development and growth will be substantially affected by these stagnant and restrictive conditions in the EU.

The earlier discussion on the deceleration of the global economy as of mid-2005 with, according to the IMF, an expected growth rate in 2005 and 2006 respectively of 3.6% and 3.6% for the USA, 0.8% and 1.9% for Japan, and 1.6% and 2.3% for the euro area, indicates the limited extent of the economic recovery and development the Asia-Pacific region can expect to achieve, owing to the well-known linkages between the four regions. Early in 2005, while the US economy appeared to be performing well with relatively benign inflationary pressures, a retrenchment in private consumption remained a risk, global current-account imbalances were high and fiscal plans remained insufficiently ambitious. Furthermore, in the second half of 2004 the European economies had lost momentum, had weak budgetary positions and distortions in the labour markets, and needed a revitalization of the Lisbon agenda (a range of reforms initiated in 2000 by the EU) to stimulate greater efficiency, flexibility, innovation, and productivity, according to an IMF assessment in 2005. Another factor affecting the economic performance of the Asia-Pacific region was the stalling of the Japanese economy in the last three quarters of 2004, reflecting weak global demand for IT products, a decline in consumer spending, the risks associated with higher oil prices and a sharp appreciation of the yen.

#### Economic Development and Terrorist Attacks

All the problems associated with the recent economic development and trends in the Asia-Pacific region discussed earlier for some major countries and related to the emergence of the Asian crisis—its impact and 'contagion', its nationally and internationally inspired management schemes and their possible economic recovery—have been the primary interest and concern of academic, business and institutional economists and policy-makers world-wide. These problems, however, were exacerbated by the terrorist attacks on the World Trade Center in New York and on the Pentagon in Washington, DC, on 11 September 2001 and by the bombing on the Indonesian island of Bali, a resort popular with Australian tourists, on 12 October 2002. The impact of the attacks was particularly deep as the whole world, and especially the economies of the Asia-Pacific region, at that time seemed to have been voluntarily or involuntarily involved in, and to be accepting, the process of inevitable and increasing globalization for better or for worse. To many analysts, the terrorist attacks in particular had an impact on development and growth of at least the same magnitude as that of the Asian crisis of the late 1990s and affected not only the economies of the Asia-Pacific region but also the rest of the developed and developing world, through the traditional trade and investment links between these blocs. The impact was almost immediate through the new transmission mechanism of globalization, including electronic com-

merce, electronic trade and even electronic government, and in previous experience with the Asian crisis is any guide, the repercussions will continue for years to come.

Some of the damage caused by these terrorist attacks can be evaluated more specifically and numerically. For example, as a result of the attacks in 2001, in that year, according to the IMF advanced countries attained an average growth rate of only 0.9% (compared with 3.8% in 2000), the EU 1.4% (3.5% in 2000), the Middle East and Turkey 1.4% (5.8% in 2000), the Asian NIEs 0.8% (8.4% in 2000), developing Asia 5.7% (6.8% in 2000), and developing countries 3.9% (5.7% in 2000), and transition economies 5.1% (6.6% in 2000). The 'crowding-out' effects of the terrorist attacks or, otherwise worded, the 'costs of hatred', have also been recently studied and calculated by economists. These effects can be measured in terms of resources and resource allocation (for example, the 11 September 2001 terrorist attack cost the US infrastructure, property, life and business activity around \$80,000m., and the costs of the USA waging a war on Iraq would cost it up to \$140,000m.), a reduction in the value of goods produced and services provided, and a lower level of well-being owing to changes in the composition of what is produced and what is allocated (for example, more expenditure on defence and terrorism prevention and therefore less expenditure on education and health).

#### The Effects of the Iraq Conflict, of SARS, of Avian Flu and of Tsunamis

Early in 2003 the world witnessed the establishment of a 'coalition of the willing' to oust the regime of Saddam Hussein from Iraq and ostensibly to eliminate the country's elusive 'weapons of mass destruction'. The cost of the damage caused by the war operation was estimated at more than \$100,000m. in terms of restoration or reconstruction. While it has been claimed that these war expenses will be offset by Iraq's future oil receipts, the 'crowding-out' effect of this revenue for the recouping of war expenses, along with the country's outlay on development and the restoration of trade links with other regions, should not be disregarded by serious economic analysts. In addition, in early 2003 the outbreak of SARS, which originated in China and Hong Kong before spreading to more than 30 countries across the world, was seen as another major crisis for the principal economies of the Asia-Pacific region and beyond, including Australia and India. Calculations by economic analysts indicated that the SARS outbreak would have an economic impact first on immediate tourism and ancillary or supporting industries, and then on the rest of the Asia-Pacific economies which would be more damaging than that resulting from the Iraq conflict or even from the September 2001 attacks, especially in relation to world aviation, and that economic growth would be reduced by as much as 1%–2% in the countries of Asia or the SARS-infected region. By August 2003 the SARS outbreak appeared to have been contained. In the first months of 2004 however, the Asia-Pacific region (especially Thailand and Vietnam) was affected by the continuing problem of avian flu. Furthermore, Indonesia, the world's fourth most populous country, was affected by an African strain of the polio virus that had spread from Nigeria and Saudi Arabia, with potential damaging effects.

Based on the information available at mid-2003, the IMF forecast that growth rates in the world economies and major regions in 2004 would be less than 2.9% for advanced economies, less than 2.4% for the EU, less than 4.5% for Asian NIEs, less than 6.5% for developing Asia and less than 4.1% for countries in transition in general. As noted above, the World Bank predicted a worse outcome for these groups in 2004 and 2005, owing to the deteriorating situation in Iraq and other emerging problems such as that of avian flu. On 26 December 2004 the exceptionally powerful earthquake (exceeding a magnitude of 9.0 on the Richter scale) and the subsequent tsunamis that struck the Indian Ocean affected 11 countries in South-East Asia and the neighbouring regions. Worst affected were Indonesia (which suffered another major earthquake near Nias on 1 March 2005) and Thailand. The impact of the tsunamis, which will be protracted according to international experts, has been enormous, with the death toll estimated to have exceeded 225,000, properties worth thousands of millions of dollars having been destroyed, fiscal and external imbalances bei-



created, and major industries, such as tourism, fisheries, aquaculture and coastal livelihoods, being severely affected. National, regional and international rescue and reconstruction efforts have been massive, with an aid programme of US \$3,500m. coming from the ADB and \$A1,000m. from Australia alone. According to the World Bank, however, the impact has been relatively minor on the overall economic growth in the two most seriously affected countries in the region, namely Indonesia and Thailand.

#### WTO, APEC, Competition Policy, Economic Integration and New Asian Regionalism

The recent economic development and trends and crises in the countries of the Asia-Pacific region, within the process of increasing globalization, accompanied by international competitiveness and the voluntary or involuntary adoption of policies by these countries, have been discussed above. While globalization is a major component or implication of the WTO, a multilateral free-trade agreement and a successor to the General Agreement on Tariffs and Trade (GATT), it cannot operate without underlying and supporting international competitiveness or its subset, competition policy and law, as the main impetus. One study on competition policy and law discussed and critically analysed major aspects and issues of competition policy and anti-trust laws (CPA) and global competitiveness (GCO) as a recent development in the economies in the Asia-Pacific region from a number of perspectives. First, it surveyed the philosophy and the micro-foundation underlying the concepts of CPA and GCO and being adopted in the international literature and institutions that specialized in this field of enquiry. This philosophy and foundation have often been neglected in previous studies on the subject. Second, it discussed the development and implementation of CPA and GCO in a number of major member countries of the Asia-Pacific Economic Co-operation forum, both developed and developing, and critically analysed aspects and issues as well as achievements, obstacles and challenges in the practices of CPA of these countries for possible adoption or adaptation by other economies.

It was also noted that, in many countries under study, CPA and GCO are seen essentially as the outcomes of the philosophy and concepts of a laissez-faire economy or market, strongly advocated by the West, mainly the USA and the EU, with the support of big transnational companies. Just as a laissez-faire economy is known to have optimal benefits in resource allocation and income distribution and maximum welfare generation, it has also been known to have its weaknesses, namely market failures. This may explain why in major market economies with a socialist orientation in Asia, such as China and Viet Nam, CPA and GCO have not been enthusiastically welcomed by government officials and the public alike. This perception, rightly or wrongly, has hindered the development and implementation of CPA and GCO. It is interesting to note, from such studies, that this perception and attitude has, with increasing globalization and the growing influence of WTO membership, slowly changed only in the early 2000s.

To minimize the occurrence and impact of market failures in order to gain optimal benefits of a truly laissez-faire economy model or something close to it (a free-market economy with government or statutory authority regulatory (and anti-trust) controls is another model, being in use in such advanced countries as Australia or even the USA), governments in both developed and developing countries have established their own trade or competition commissions with ministerial power and function to supervise corporate structuring and operation. It seems that no single country from all major trading blocs in the world has not embraced, for its local and international trade and industry policies, the ideas and concepts of CPA and GCO, and has developed or is developing CPA and aspects of GCO.

For these countries, this embracing of ideas is a necessity as trade and investment liberalization can only improve their growth and economic development, enhance their business environment, improve the welfare of their populations, alleviate their poverty and facilitate their integration into the global economy. It is also a necessity as international pressure to adopt and implement CPA and GCO has been intense, coming from international organizations such as the WTO, the World Bank and the IMF and even from regional organizations such as

APEC. However, the pace of progress of successful negotiations on multilateral free-trade agreements, such as those of the WTO, and of economic integration, such as that proposed by APEC, has been notoriously slow. Therefore, alternative conceptual and policy models with more immediate expected outcomes on trade and growth, including the ASEAN and plurilateral free-trade agreements or new Asian regionalism such as ASEAN + 3 (that is, ASEAN + China, the Republic of Korea and Japan) and ASEAN + 5 (ASEAN + 3, along with Australia and New Zealand), have been eagerly promoted and supported by political leaders of the major countries of the Asia-Pacific region since the 1990s. Notable within the ASEAN countries themselves is the ASEAN or Bali Concord II, which was approved in October 2003 and which has the broader objectives of security, economic and sociocultural co-operation for all members.

#### Growth of Plurilateral and Bilateral Free Trade Agreements

The ASEAN + 3 proposal (also known as the Kim Young-Ho proposal, named after the Republic of Korea's former Minister of Commerce who first presented it) was initially discussed in the mid-1990s. A number of factors can be attributed to its emergence. First, it was the result of decades of fast growth and a number of economic, financial and restructuring developments in North-East Asia and in other major trading blocs in the world. Second, it arose from developments and shifts in focus in North America (through the North American Free Trade Agreement—NAFTA) and the EU in the aftermath of the damaging Asian crisis, which although originating in Thailand in July 1997, ultimately spread to a number of once 'miracle' economies in East and South-East Asia, the former USSR, and to a lesser extent, North and South America and the EU. Third, it was the result of a benign neglect by such international organizations as the IMF and by the economic powers of North America and the EU regarding the plights of crisis countries in Asia and their lack of interest in seriously helping to solve the economic, financial and social problems arising from the Asian crisis.

In 2001 and in early 2002 other new developments in East and South-East Asia (for example, the quick recovery and resumption of growth in the Republic of Korea and the continuing stagnation of the economy of Japan) gained prominence and gave rise to a number of new Asian regionalisms (NARs) or economic integrations and to Asian free-trade agreements (FTAs) either in a plurilateral or bilateral framework.

These NARs and FTAs are currently indeed numerous and are proliferating at an amazing speed at the behest of government leaders, especially in the Asia-Pacific region. They include: ASEAN + 3; ASEAN + 5; ASEAN + 5 + Taiwan; Japan + Singapore; Japan + (the Republic of) Korea; Japan + Mexico; Korea + Mexico + Chile; Singapore + New Zealand; China + Japan + Korea; Hong Kong + New Zealand; and finally, Viet Nam + USA. There was even some discussion on the establishment of a North Asian FTA, in which Japan would play an important part. In May 2002 a protocol was also being negotiated between Washington and Canberra to address key US complaints about the Australian market and to prepare for the setting up of a radical Australia-US FTA (AUSFTA), as proposed by the Australian Government, to the dismay of New Zealand which wanted a trilateral 'closer economic relationship' with the USA (along the lines of the CER between Australia and New Zealand—a bilateral agreement reached in 1982). The AUSFTA came into force on 1 January 2005. Also, in May 2002, the New Zealand Prime Minister, Helen Clark, suggested the establishment of an Australia-New Zealand Economic Co-operation (ANZEC) to revitalize the CER.

The main focus and objective of these NARs and Asian FTAs (as distinct from currency and customs unions) are to promote trade and, subsequently, growth and development, either among the economies of the Asia-Pacific region itself or with the membership of other economies outside Asia, such as those of the USA, Mexico and Chile in the Americas, and Australia and New Zealand in Oceania. Prominent among these NARs and Asian FTAs is the Kim Young-Ho proposal mentioned above (and part of it, the ASEAN + 1 or ASEAN + China FTA) which would encompass a market of 1,700m. people, a combined GDP of \$2,000,000m. and trade to the value of \$1,200m.). ASEAN + China was endorsed by the 10 leaders of the ASEAN member



countries at a meeting in Brunei in November 2001, and the details were worked out at a negotiating session in Beijing in May 2002.

In view of the establishment of the ASEAN + 3 (and other Asian FTA variations) and the inherent economic issues and problems (historically, socially, politically and religiously), along with other emerging concerns as expected in the future, one may legitimately ask whether the structure or policies of some functions of the existing international organizations, such as APEC, the WTO or even the IMF, can be amended or whether special divisions of them should be established to accommodate the concerns and designs of the ASEAN + 3 trade strategists and policy-makers in dealing with Asia's contemporary economic issues and problems. The perceived effect of the argument often advanced by these organizations is that an ASEAN + 3 FTA is not necessary or will not ultimately be endorsed by the WTO.

The reasons for this proposition are that, first, to some observers, the emergence of the Asian crisis in 1997 and its subsequent 'contagion' were simply the outcome of a volatile international capital market that did not have proper regulatory controls. This can be rectified, however, by appropriate financial reform. Second, the impact of this crisis was still lingering in Asia, more than six years later, because the rescue and reform programmes imposed by the IMF on the crisis economies were based on wrong diagnosis. As a result, incorrect and ineffective prescriptions were recommended. It has been argued that this problem can be solved with more appropriate rescue policies by the IMF and, as a result, not by creating an ASEAN + 3 FTA or economic integration that may have the effect of diminishing some of the principal functions of the IMF, the WTO or even APEC.

The advocates of this solution suggest the establishment of a specialist division at APEC, the WTO or IMF, with a deep and proper understanding of, and expertise in, Asian economies and societies in general and of ASEAN + 3 aspects and issues in particular. To them, this solution may go a long way towards promoting economic growth and development, along with trade and investment, in Asia itself and in relation to the rest of the world.

The debate on what has been known in the contemporary literature on Asian economic development and growth as a repositioning of dialogue between the existing and dominant US- and EU-orientated international institutions (such as the IMF on the one hand and the emerging and powerful economies in South-East and North-East Asia on the other), will increase in the future. Development, growth patterns and trends in trade and economic activities and international relations in the countries of the Asia-Pacific region will be strongly influenced mainly by the outcome of this debate and by the international geopolitical climate of inevitable dynamic change world-wide in the years to come. In early 2004 there was a distinct trend among the countries of the Asia-Pacific region to develop bilateral and plurilateral FTAs and to 'fast-track' the major objectives of the WTO (which currently has 148 members and requires agreement from all of them on trade issues) but without the participation of the WTO. The grouping's 5th Ministerial Conference held in Cancún, Mexico, in September 2003, yielded no tangible results; this was due to disagreement on the question of liberalization of agricultural products for WTO members, put forward by the Cairns Group (or similarly composed agricultural trading associations), and the emergence of the 'Singapore Issues'. Recent bilateral FTAs in the Asia-Pacific region include the Australia-Singapore FTA which was signed in July 2003 and the Australia-Thailand FTA signed in October 2003. Japan, which over the years has had a distaste for FTAs, nevertheless concluded a New Age Economic Partnership Agreement with Singapore in November 2002, followed by the Japan-Thailand Economic Co-operation Partnership Agreement in December 2003, and in October 2003 started a joint feasibility study for a Japan-Korea FTA. An ASEAN and India Framework on Comprehensive Economic Co-operation entered into force in July 2004, while a joint feasibility study was being carried out for a proposed Australia-China Trade and Economic Framework. In view of the benign neglect by North America and the EU of Asia and its problems and issues, this proliferation of NARs and FTAs reflects the need of the countries in the Asia-Pacific region to expand trade, to enhance development and growth, to build

up economic integration and, at the same time, to promote regional co-operation, political stability and security, and to improve welfare for mutual benefits. Strategically, the trend is a good way for the countries in the region, led perhaps by East Asia 3 (China, Japan and the Republic of Korea), to position themselves against the economic and trade power of the USA. Consequently, the global influence of the other major trade blocs such as the NAFTA and the enlarged EU. A stronger trade and economic relations link between Australia and ASEAN is currently being sought at the highest political level, but effort is being hampered by Australia's persistent refusal to ratify ASEAN's Treaty on Amity and Co-operation, owing to its longstanding commitment to its military and security arrangements with the USA.

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